



The Real Estate TRENDS

MARCH 26
1952

Volume XXI

A concise monthly digest of real estate and construction fundamentals and trends.....A part of the complete service known as the Real Estate Analyst Reports.

Number 11

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

on page 98 that our national real estate activity index rose almost three points in January, and more than four and a half points in February. Activity is higher now than at any time in the last 11 months, and serves robust notice that the real estate boom is far from dead. We have long since learned the folly of trying to guess the month-to-month changes in activity, but we're still guessing the long-term trend to be down.

Preliminary estimates of February real estate activity indicate a sharper rebound than occurred in January. You will see from the chart

REAL ESTATE MORTGAGE ACTIVITY

After falling steadily for almost a year, mortgage activity picked up during late 1951, and has been moving up rather strongly since. There will probably continue to be a shortage of mortgage money for FHA-VA loans, particularly the latter, but there will be plenty of money to meet the demands of conventional loans. We feel that the term "shortage of money" (which we have also been guilty of using) is misleading. The reason that FHA-VA loans are having such a slow time is the low rates they carry. Very few lenders can afford to handle them. The fault is with the rates on government-sponsored financing and not with any shortage of money. So the emphasis should be put where it belongs.

RESIDENTIAL CONSTRUCTION COSTS

below its November 1951 peak. While this decline is not epoch-making, it does represent a reduction of almost 3%. With good building weather returning, the demand for materials will pick up and lumber prices, which have been skidding for the last few months, will probably move upward slowly. The same is true for prices of plumbing fixtures, which have also been dropping. In many parts of the country, labor contracts are to be renewed and this will mean an upward revision of rates, especially since the government has given permission. Construction costs, therefore, are expected to level off and perhaps climb a bit during the next several months.

"Don't look now, but -" seems to be an appropriate way of commenting on construction costs. For the fourth straight month the cost of our 6-room frame house has declined. It is now \$470

RESIDENTIAL CONSTRUCTION

Residential construction reached its peak in January 1951. During the 12-month period ending in that month (February 1950-January 1951) the construction industry started 1,403,200 nonfarm dwelling units. Since then, residential construction has dropped 23.6%. The 12-month period from March 1951 through February 1952 has seen 1,071,000 nonfarm units started. This drop will undoubtedly continue throughout the year.

Builders, along with most other business men, will find some of their problems becoming more acute and some of them virtually disappearing as the year moves on. Metal items are going to be easier to get, particularly steel. Credit controls, which are now extremely lax, are not apt to be tightened during an election year. On the other hand, politics will play a heavy part in FHA-VA financing, and it is hard to see what will be done to start mortgage money flowing toward these loans once again. Until some government action is taken, the builders are going to continue to have a hard time with FHA-VA financing. Defense housing faces practically the same lack of financing, but our guess is that Congress will vote more FNMA money to speed up this program.

Sales are another problem. For the past several years builders have had an easy time selling all the homes they could build. In some areas this condition still exists, but the number and size of these areas is growing less each month. Of course, builders are not going to have to sell as many houses this year as they did in 1950 and 1951. Even so, it will not be surprising to find considerable numbers of new houses unsold and empty by the end of the year.

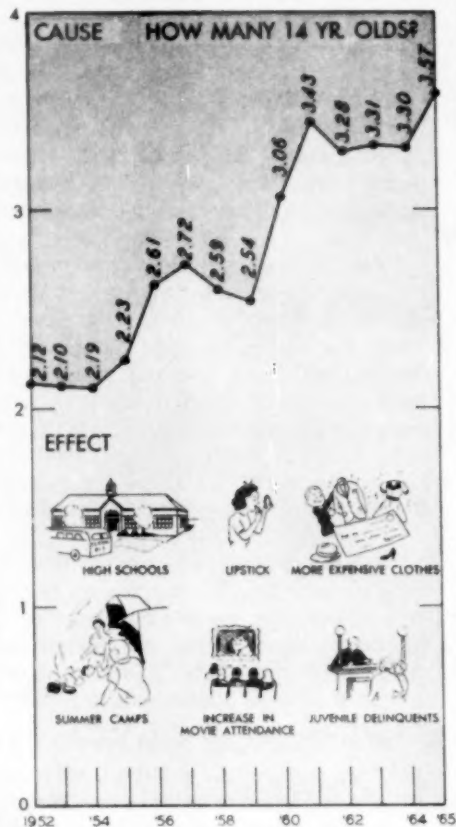
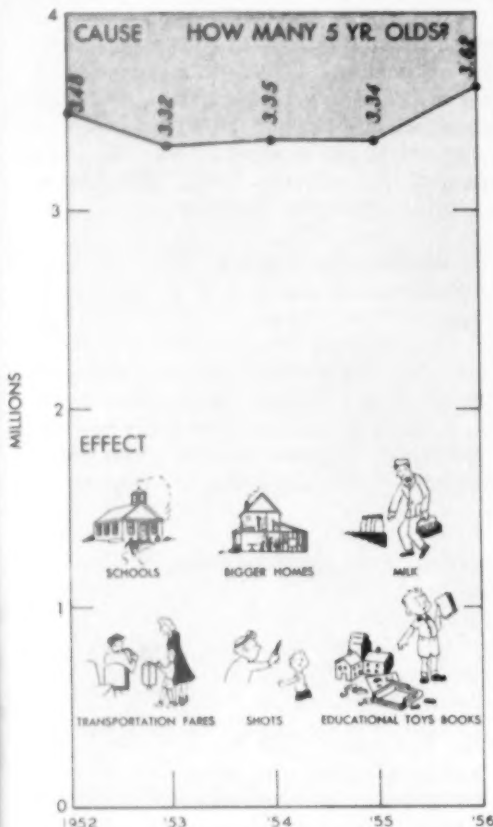
POPULATION GROWTH LEADS TO ECONOMIC GROWTH

EVER since the postwar marriage and baby booms, we have been reading about the economic impact of our rapidly increasing population. Most of the comments have been of a rather general nature, but in this bulletin we have attempted to get a little more specific, and to tell you in more exact terms what this population increase will mean.

To start with, there are several important milestones to be passed in the process of growing up, and the most important one is the beginning - or being born. The millions of new babies that have come along each year have had a tremendous effect on the sale of canned milk, layettes, baby beds, high chairs, play pens, safety pins, diapers, and the multitudinous other items of baby care, comfort and convenience, but they have very little effect on any part of the real estate market.

As they continue to grow, children exert considerable influence on the real estate market. Their most consistent pressure is on retail sales, which affect the real estate market indirectly, but at certain ages their impact upon the real estate market is direct and drastic. This is particularly true when they come along in such devastating numbers as they have in the past few years.

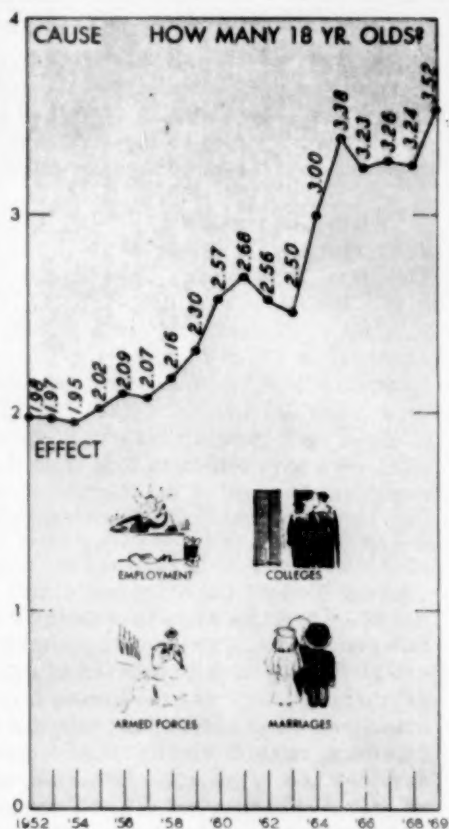
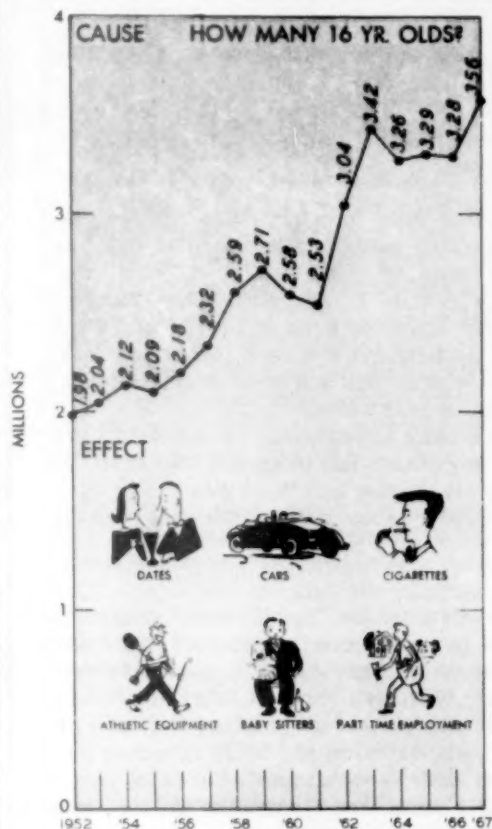
On pages 100 and 101 are four charts. These charts, which we have labeled



"cause and effect," show the number of kids that will reach age 5, 14, 16, and 18 for the next several years. In the shaded portions of the charts are sketches representing the effects these large numbers of children will have on various parts of the economy.

Perhaps the most drastic effect 5-year-olds have on real estate is in the demand for new schools. To some small extent this stimulates the sale of land, and to a greater extent it stimulates the construction business, but the most far-reaching and long-lasting effect is usually on the real estate tax rate. There is no question that many of our elementary schools are crowded. They will become more crowded and this condition will spread through all of the grades as these large numbers of 5-year-olds enter school and move on up through elementary school and high school. There is a difference, however, between acting quickly and acting hastily, and property owners should not be stampeded into tax raises and bond issues to provide schools which will be excess capacity in a few years.*

*To give our clients information that will help combat extravagant demands for new schools we are preparing a study of various age groups in selected metropolitan areas to indicate the probable demand for schools over the next several years.



Extra room within the home is usually required before a child reaches five, and millions of families are going to be in the market for larger homes, or will take steps to provide the extra room within the house they now occupy. While few families will have to be reminded of this need, building material dealers and contractors should certainly begin to exploit this market more fully.

The effect 5-year-olds have on retail sales springs from larger and more diversified appetites, need for more and different-type clothing, and the use of more expensive and complicated toys.

There are no profound changes in the economic impact caused by children until they reach 14. By this time, most of them are ready to enter high school, so a few years hence the congestion now prevalent in the kindergarten will have grown up, put on long pants, or bobby sox, and moved down the street to the high school. Notice that from 1956 to 1958 the potential number of high school freshmen increases from 2.54 million to 3.44 million, a rise of 900,000. They will require a lot of new class rooms.

The change in social habits that occurs when kids enter their teens also has

an effect on retail sales - and to a less extent on other enterprises. Their likes and dislikes in clothing, hobbies, and entertainment frequently make quite an impression (economically as well as visually). It is also at age 14 that tendencies toward juvenile delinquency and other forms of objectionable behavior become more pronounced among certain types.

When kids become 16, most States allow them to operate automobiles, and some stimulation can be expected in gasoline sales and at the used-car lots. The girls begin to wear more expensive clothes, costume jewelry and join sororities. Both boys and girls usually begin to draw larger allowances and start smoking and drinking to some extent. By this time most of the girls are well experienced as baby-sitters and many of the boys are available for the part-time labor market. Their interests are more widespread and their tastes become a little more expensive. Either through their own efforts or through the indulgence of their parents they acquire the money to buy many of the things they want. We have felt for a long time that merchants fail to exploit this small but important segment of the market. After all, buying habits formed at age 16-17 may be easily broken - but however weak these habits may be, they are probably better than none at all.

At 18 most kids reach what used to be called the "crossroads" of life. In this complicated day it would probably be more accurately described as a "cloverleaf." They usually take one of four choices. They go to college, go to work, get married, or enter the armed forces. Whatever happens, they are through being treated as kids. They become more important as what statisticians call "spending units." Most of them enter the labor force and begin spending their earnings at a brisk rate. Those who enter college are certainly the cause of considerable spending, not only for tuition and books, but for clothes and the social life usually found in colleges. The cost of training, equipping and maintaining our armed forces is constantly climbing and, therefore, each boy who enters the armed forces becomes indirectly and directly an important spender. Perhaps those that marry at 18 have the least effect on the economy. This is a comparatively small number, and for a while they generally live with one of their in-laws. They have relatively little effect on the housing market at that age. Both of them usually work, or one works and the other goes to school, but whatever the case, the fact that they marry at 18 has little economic significance.

The chart shows that the number reaching 18 turns up in 1955, and is in a constantly rising trend during the next 15 years. This means more colleges will be needed, more jobs must be provided by business, more goods must be produced, and that the draft requirements will be easier to fill.

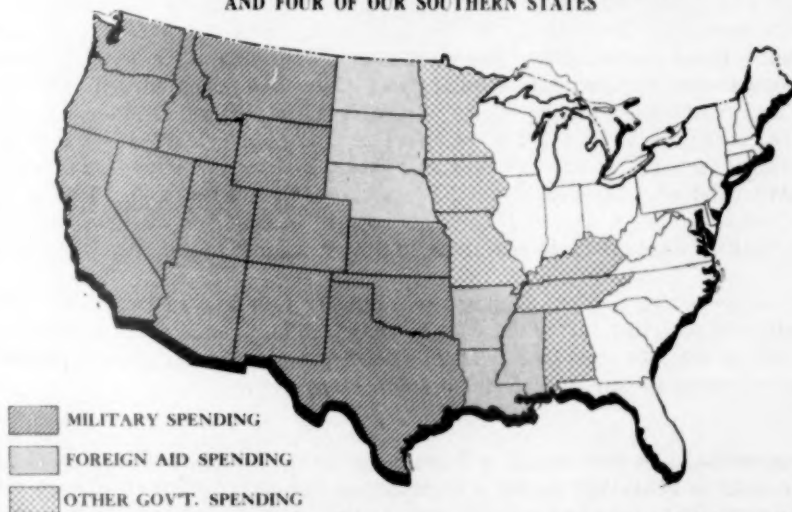
As pointed out in last month's Trends Bulletin, the tremendous number of 18-year-olds in 1964-1969 means a tremendous number of 20-year-olds in 1966-1971, and age 20 is usually about as early as they start house-hunting in earnest.

WHAT COULD YOU DO WITH \$85.4 BILLION?

HOW much is \$85.4 billion? Do you have any idea? We're all accustomed to talking about amounts of this size, but most of us can't think in terms that big. It's an awful lot of money, and if we laid that many dollar bills end to end they would reach around the world 322 times - or to the moon and back 17 times. It's more than the value of all farm real estate (land and buildings) in the United States. It's more than all of the savings deposits in the country. It's more than enough to feed every family in the country for a year. It's more than all of the families in the United States spent for food, shelter, clothing, medical care, transportation, recreation and household operation in 1941. If we tried to spend it in a year we'd have to spend \$284 million per day (with Sundays and holidays off), or \$8,000 a second. It's a lot of money, and you could buy a lot of things with it. You could buy each family in the United States a refrigerator, stove, washing machine, ironer, clothes dryer, television set, vacuum cleaner (all new, of course), and you'd still have enough left over to buy each family a big deep freeze.

To get this much money you would simply take the entire 1952 income from every family living west of the Mississippi River, and (to show that you're not discriminating against Easterners) the entire 1952 income from every family in four States east of the Mississippi River. That's how much our Federal government will take and spend. It will all be gone in one year and even that might not be enough.

THE 1953 FEDERAL BUDGET OF \$85.4 BILLION IS GREATER THAN
ALL THE INCOMES OF ALL THE PEOPLE WEST OF THE MISSISSIPPI
AND FOUR OF OUR SOUTHERN STATES



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TOWNS FOR SALE - CHEAP!

IN 1937 the Resettlement Administration (set up under the Emergency Relief Appropriation Act of 1935) went into the real estate business on a grand scale. Its operations included the development and construction of three small, completely equipped towns, located in Maryland, Ohio and Wisconsin. These towns, or villages, were named Greenbelt, near Washington, D. C.; Greenhills, near Cincinnati; and Greendale, near Milwaukee. In the words of the Resettlement Administration, their development was to serve three purposes: 1. provide useful employment for thousands of jobless workmen; 2. demonstrate a new type of community planning, combining city convenience with many advantages of rural life; 3. demonstrate a better utilization of land in suburban areas.

The cost of these three towns (including land, buildings, service facilities and development costs), built in 1937, was:

Greendale, Wis.	\$10,964,379
Greenhills, Ohio	11,924,857
Greenbelt, Md.	<u>13,448,869</u>
1937 cost	\$36,338,105

Since one purpose of these projects was to provide work for the unemployed, there was considerable "feather-bedding." According to the government, this "excess" labor cost amounted to about 16%. To be conservative, we have applied a correction factor of 16% to the entire construction cost. The figures below show what the normal cost of the projects should have been.

Greendale, Wis.	\$ 9,396,985
Greenhills, Ohio	10,299,168
Greenbelt, Md.	<u>11,376,297</u>
1937 cost (without feather-bedding)	\$31,072,450

If we increase these 1937 construction costs to their 1952 level (conservatively 130%), the present-day reproduction cost of these projects would be:

Greendale, Wis.	\$20,036,985
Greenhills, Ohio	24,499,168
Greenbelt, Md.	<u>25,426,297</u>
	\$69,962,450

All three of these villages have recently been, or are in the process of being, sold, for the following amounts:

Greendale, Wis.	\$ 4,035,075
Greenhills, Ohio	3,511,300
Greenbelt, Md.	<u>8,971,200</u>
	\$16,517,575

In a later bulletin we will present a more detailed analysis of the construction, operation and sale of these villages, but at first glance it looks as though they have suffered a tremendous amount of depreciation and, as is usually the case, the taxpayer has suffered along with them.